

**EXAMINATION REPORT**  
**OF THE**  
**FAIR AMERICAN SELECT INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2019**

Office of the  
Commissioner



Delaware  
Department of Insurance

REPORT ON EXAMINATION  
OF  
FAIR AMERICAN SELECT INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2019

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro  
Insurance Commissioner

Dated this 7 day of June, 2021

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May 27, 2021

Honorable Trinidad Navarro  
Insurance Commissioner  
Delaware Department of Insurance  
1351 W. North Street, Suite 101  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.014, dated March 3, 2020, an examination has been made of the affairs, financial condition and management of the

**FAIR AMERICAN SELECT INSURANCE COMPANY**

hereinafter referred to as FASIC or the Company. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 251 Little Falls Drive, Wilmington, Delaware 19808. The main administrative office is located at One Liberty Plaza, 165 Broadway, New York, New York 10006.

The examination report thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

We have performed our examination of Fair American Select Insurance Company, a multi-state insurer. The previous examination was conducted by the Delaware Department of Insurance (Department) as of December 31, 2016. This examination covered the period of January 1, 2017 through December 31, 2019. Our examination was performed as part of the multi-state coordination examination of the Alleghany Group (Group). New Hampshire and New York were the co-coordinators for the Group

examination. New York was the lead state for the TransRe subgroup which includes Transatlantic Reinsurance Company, Fair American Insurance and Reinsurance Company and Fair American Select Insurance Company. Other states participating in this Group examination were Nebraska and Wisconsin.

The examination of the Company was performed concurrently with the examinations of the following insurers:

<u>Insurer</u>	<u>Domicile</u>	<u>NAIC #</u>
Capitol Indemnity Corporation	Wisconsin	10472
Capitol Specialty Insurance Corporation	Wisconsin	10328
Covington Specialty Insurance Company	New Hampshire	13027
Fair American Insurance and Reinsurance Company	New York	35157
<b>Fair American Select Insurance Company</b>	<b>Delaware</b>	<b>15201</b>
Landmark American Insurance Company	New Hampshire	33138
Platte River Insurance Company	Nebraska	18619
RSUI Indemnity Company	New Hampshire	22314
Transatlantic Reinsurance Company	New York	19453

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the

examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the *General Corporation Law* of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external auditing firm, Ernst & Young LLP (E&Y). Certain auditor work papers have been incorporated into the work papers of the examination.

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statements as a result of this examination.

#### **COMPANY HISTORY**

The Company was incorporated on October 1, 2012, under the laws of the State of Delaware. The Company was a subsidiary of Fair American Insurance and Reinsurance Company (FAIRCO) at the time of incorporation. Effective November 5, 2015, FAIRCO entered into a Stock Purchase Agreement with Transatlantic Reinsurance Company (TRC) to sell 100% of the share capital of the Company for a cash purchase price based on total stockholders' equity as of September 30, 2015. As a result of the transaction, the Company became a direct wholly owned subsidiary of TRC.

#### **Common Capital Stock**

On the date of incorporation, October 1, 2012, the Company issued 1,000 common shares with a par value of \$1 per share. The Company amended its Articles of Incorporation via a Board Resolution and Unanimous Written Consent, which was filed with the Delaware Secretary of State on May 14, 2013,

changing the par value of its issued common stock from \$1 per share to \$500 per share. The stock certificate was amended and issued to FAIRCO, the Company's parent at the time. An amended stock certificate was issued to TRC.

#### Gross Paid In and Contributed Surplus

FAIRCO contributed surplus to the Company in the amounts of \$500,000 on October 1, 2012, \$15,000,000 on May 15, 2013, and \$30,000,000 on September 11, 2013. TRC contributed \$55,000,000 to the Company on August 5, 2016, increasing the gross paid in and contributed surplus to \$100,500,000.

#### Dividends to Stockholders

No dividends were paid to stockholders during the period under examination.

### **MANAGEMENT AND CONTROL**

Pursuant to the *General Corporation Law* of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company is managed by the Board of Directors (Board). The Board, by vote of majority of the whole Board, may designate one or more committees.

#### Directors

The bylaws state that the Company's business and affairs are to be managed by a Board consisting of not less than one (1) or more than ten (10) directors. The directors are to be elected at the annual meeting of the stockholders and each director shall be elected to serve until his successor shall be elected and shall qualify.

The following individuals served as the Board as of December 31, 2019:

<u>Name</u>	<u>Principal Business Affiliation</u>
Kenneth Apfel	Executive Vice President and Chief Actuary Transatlantic Holdings, Inc.
Kenneth W. Brandt	Executive Vice President Transatlantic Reinsurance Company

Matthew D. Mahoney	Executive Vice President and Chief Financial Officer Transatlantic Holdings, Inc.
Michael C. Sapnar	President and Chief Executive Officer Transatlantic Holdings, Inc.
Gary A. Schwartz	Executive Vice President and General Counsel Transatlantic Holdings, Inc.

### Officers

The bylaws state that the officers of the corporation shall be a President, a Treasurer, and a Secretary, all of whom shall be elected by the Board and who shall hold office until their successors are elected and qualified. In addition, the Board may elect a Chairman, one or more Vice Presidents, and such Assistant Secretaries and Assistant Treasurers as they may deem proper. None of the officers of the corporation need be directors. The officers shall be elected at the first meeting of the Board after each annual meeting. The following key officers were elected on April 16, 2019, for year ending December 31, 2019:

<u>Name</u>	<u>Title with FASIC</u>
Michael C. Sapnar	President and Chief Executive Officer
Kenneth Apfel	Executive Vice President and Chief Actuary
Kenneth W. Brandt	Executive Vice President
Thomas V. Chalnoky	Executive Vice President
George J. DiMartino	Executive Vice-President and Chief Information Officer
Beth A. Levene	Executive Vice President
Paul F. McKeon	Executive Vice-President and Chief Underwriting Officer- North America
Gregory J. Richardson	Executive Vice President and Chief Risk Officer
Gary A. Schwartz	Executive Vice President and General Counsel
Donna N. Byron	Senior Vice President
Richard T. Henderson	Senior Vice President
Edward J. Kelley	Senior Vice President and Deputy General Counsel
Shawn Lynch	Senior Vice President
Matthew D. Mahoney	Senior Vice President and Chief Financial Officer
Sandra C. Rushbrook	Senior Vice President & Chief Compliance Officer
Edward T. Sheehan	Senior Vice President
Suzanne A. Spantidos	Senior Vice President
Ken T. Yapp	Senior Vice President and Assistant General Counsel
Amy M. Cinquegrana	Vice President & Corporate Secretary

James Ready  
Andrew H. Simpson  
Beth Terrell  
Brienne Bannister

Vice President and Treasurer  
Vice President and Director of Internal Audit  
Vice President  
Assistant Vice President

### Executive Committee

The Executive Committee for the Company is as follows:

<u>Name</u>	<u>Title with FASIC</u>
Michael C. Sapnar	President and Chief Executive Officer
Matthew D. Mahoney	Senior Vice President and Chief Financial Officer
Gary A. Schwartz	Executive Vice President and General Counsel

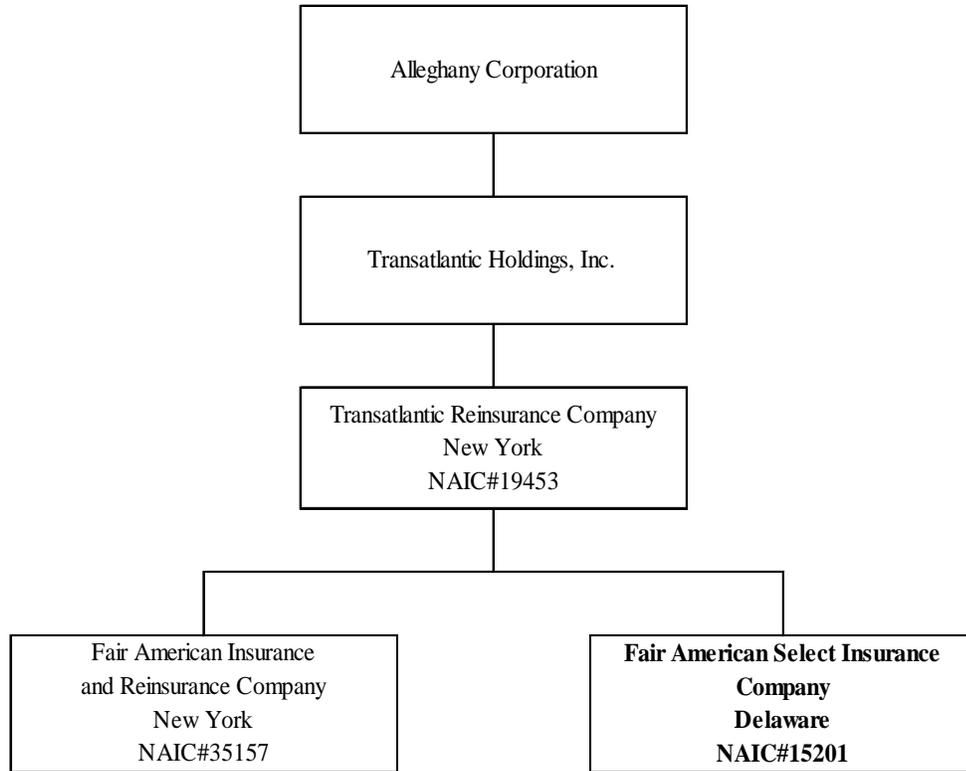
### Corporate Records

The recorded minutes were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 *Del. C.* §1304 “Authorization; record of investments”.

### Holding Company System

The Company is a member of the Alleghany Corporation (Alleghany) holding company system as defined under 18 *Del. C.* ch 50, “Insurance Holding Companies”. Alleghany, a Delaware corporation, is the ultimate controlling entity of the holding company system. The Company is a wholly-owned subsidiary of TRC, a New York domiciled property and casualty (re)insurer which is owned 100% by Transatlantic Holdings, Inc. (THI), a Delaware holding company. Alleghany owns 100% of THI, which merged with Alleghany on March 6, 2012.

The following is an abbreviated organizational chart for the Company:



Affiliated Agreements

The Company is party to several intercompany agreements as follows:

*Service Agreement*

Effective October 2, 2013, the Company is party to a Service Agreement with FAIRCO whereby FAIRCO provides insurance facilities and administrative services. The services also include accounting, investment and actuarial services, and other services as requested by FASIC. The Service Agreement was approved by the Department and appropriately included in the Company's Form B filing.

*Tax Allocation Agreement*

Effective April 29, 2014, the Company entered into a Tax Sharing Agreement with Alleghany, THI, TRC, and FAIRCO pursuant to which the Company is part of the consolidated federal income tax

return of Alleghany and which provides for the allocation of the consolidated income tax liability among Alleghany's subsidiary groups, which is allocated primarily on a separate return basis. This agreement replaced in its entirety the previous tax sharing agreement dated February 5, 2013, which was updated to reflect the current parties to the agreement. The Tax Sharing Agreement was approved by the Department and appropriately included in the Company's Form B filing. The IRS has undertaken a limited scope audit of the Alleghany Group for 2015 through 2017 which focuses on the foreign tax credits of the Company. The audit is in the final stages in that the auditor's report is with the Joint Committee of Taxation. The report did not identify any adjustments.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a surplus lines insurer in the State of Delaware. The Company is eligible to write surplus lines in all other states and the District of Columbia.

The Company's plan of operation is to write program business to facilitate coverage where FAIRCO admitted policies would not be appropriate. As of December 31, 2019, the Company's direct written premiums were \$5,828,745 and consisted of four programs, a commercial auto program, two commercial property programs, and a long term care program.

### **REINSURANCE**

The following chart indicates the premiums and losses ceded to affiliates and non-affiliates as December 31, 2019:

	<b>Premiums Written</b>	<b>Losses and LAE Incurred</b>	<b>Unpaid Losses and LAE</b>
<b>Direct Premiums</b>	\$5,828,745	\$5,418,619	\$27,661,202
<b>Ceded-Affiliate-TRC</b>	(4,910,686)	(4,419,717)	(24,758,842)
<b>Ceded-Non-Affiliate</b>	(434,138)	(429,333)	(466,102)
<b>Net</b>	<u>\$483,921</u>	<u>\$569,569</u>	<u>\$2,436,258</u>

Assumed Reinsurance

The Company does not assume any business.

Ceded Reinsurance - Affiliated

The Company's significant ceded reinsurance is a 90% quota share agreement with TRC effective July 1, 2013. The agreement was amended effective June 30, 2015, to provide that as respects Tax Liability Insurance, the quota share percentage is 95.5%. The agreement was amended effective December 31, 2016, to pay the broker at the direction of and on behalf of TRC, a reinsurance brokerage in the amount of 1.5% of 90% of the Gross Written Premium relating to the long-term care program. This addendum was deleted in its entirety effective December 31, 2019. The agreement and addendums were filed with the Department.

Ceded Reinsurance – Non-Affiliated

The Company purchased third-party excess-of-loss reinsurance to reduce the effect of catastrophe losses, a fronted long term care policy, and two fronted parametric wind policies as of December 31, 2019.

**FINANCIAL STATEMENTS**

The financial statements, as reported and filed by the Company with the Department, are reflected in the following as of December 31, 2019:

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Income  
Reconciliation of Capital and Surplus

Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2019

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$103,650,658	\$ 0	\$103,650,658
Cash and short-term investments	3,270,949	0	3,270,949
Subtotals, cash and invested assets	<u>\$106,921,607</u>	<u>\$ 0</u>	<u>\$106,921,607</u>
Investment income due and accrued	740,372	0	740,372
Uncollected premiums, agents' in the course of collection	143,747	0	143,747
Amounts recoverable from reinsurers	38,908	0	38,908
Aggregate write-ins for other than assets	2,520,089	0	2,520,089
Totals	<u><u>\$110,364,723</u></u>	<u><u>\$ 0</u></u>	<u><u>\$110,364,723</u></u>
Losses			\$ 2,358,949 <i>Note 1</i>
Loss adjustment expenses			77,309 <i>Note 1</i>
Commissions payable, contingent commissions and other similar charges			1,516,857
Other expenses			15,381
Current federal and foreign income taxes			485,025
Net deferred tax liability			2,527
Unearned premiums			211,386
Ceded reinsurance premiums payable			3,609
Aggregate write-ins for liabilities			609,335
Total Liabilities			<u>\$ 5,280,378</u>
Common capital stock			\$ 500,000
Aggregate write-ins for other than special surplus funds			57,044
Gross paid in and contributed surplus			100,500,000
Unassigned funds (surplus)			4,027,301
Surplus as regards policyholders			<u>\$105,084,345</u>
Totals			<u><u>\$110,364,723</u></u>

Statement of Income  
For the year ending December 31, 2019

<u>Underwriting Income</u>	
Premiums earned	\$ 1,124,177
<u>Deductions</u>	
Losses incurred	175,869
Loss adjustment expenses incurred	393,700
Other underwriting expenses incurred	1,135,261
Total underwriting deductions	\$ 1,704,830
Net underwriting gain or (loss)	\$ (580,653)
<u>Investment Income</u>	
Net investment income earned	\$ 2,750,576
Net realized capital gains or (losses)	189,085
Net investment gain or (loss)	\$ 2,939,661
<u>Other Income</u>	
Aggregate write-ins for miscellaneous income	\$ 1,129
Total other income	\$ 1,129
Net income before dividends to policyholders and before federal income taxes	\$ 2,360,137
Dividends to policyholders	0
Net income after dividends to policyholders and before federal income taxes	\$ 2,360,137
Federal and foreign income taxes incurred	321,999
Net income (loss)	\$ 2,038,138

Reconciliation of Capital and Surplus  
December 31, 2016 to December 31, 2019

Capital and Surplus, December 31, 2016	\$	103,229,989
Net income	\$	1,900,173
Change in net unrealized capital gains or (losses)		(1,596)
Change in net deferred income tax		(77,665)
Change in non-admitted assets and related items		3,253
Aggregate write in - Prior year correction		30,191
Change in surplus as regards policyholders	\$	1,854,356
Capital and Surplus, December 31, 2019	\$	105,084,345

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes in financial statements as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

*Note 1:*

Losses		\$2,358,949
Loss Adjustment Expenses	\$	77,309

The examination liability for the aforementioned captioned items of \$2,358,949 and \$77,309 are the same as reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with General Accepted Actuarial Principles and Statutory Accounting Principles, including *NAIC Accounting Practices and Procedures Manual, SSAP No. 55*.

### **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (COVID-19) pandemic. The risks and uncertainties surrounding the COVID-19 pandemic may impact the Company's, and its competitors', operational and financial performance. The extent of the impact of the COVID-19 pandemic on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets. All of these developments are uncertain and cannot be predicted. The related financial impact cannot be reasonably estimated at this time. The Company currently does not have any material COVID-19 loss exposure.

### **SUMMARY OF RECOMMENDATIONS**

There were no recommendations that warrant disclosure in the report.

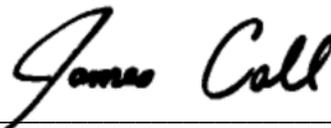
### **CONCLUSION**

The assistance of the Department's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's external audit firm, E&Y and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

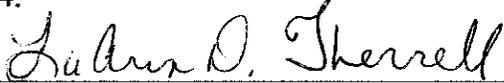


Lu Ann D. Therrell, CFE  
Examiner In-Charge  
Delaware Department of Insurance



James D. Call, CFE  
Supervisor In-Charge  
Delaware Department of Insurance

I, Lu Ann D. Therrell, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.014.

  
\_\_\_\_\_  
Lu Ann D. Therrell, CFE